

CENTRAL WATER SYSTEM
INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS AND
SCHEDULE OF FINDINGS
DECEMBER 31, 2014

CENTRAL WATER SYSTEM

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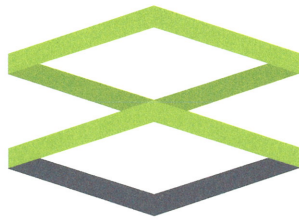
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CENTRAL WATER SYSTEM

DECEMBER 31, 2014

OFFICIALS

<u>NAME</u>	<u>TITLE</u>
Jake Hinshaw	Director - Chairman
Gary Vos	Director - Secretary/Treasurer
Russ Eckard	Director
Michael Miller	Plant Superintendent



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Central Water System
Okoboji, IA 51355

We have audited the accompanying statement of cash receipts, disbursements, and change in cash balance of Central Water System (System) as of and for the year ended December 31, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of Central Water System as of December 31, 2014 and the change in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, the financial statement is prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2015 on our consideration of Central Water System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Central Water System's internal control over financial reporting and compliance.

Wintner, Stave & Co., LLP

August 17, 2015
Spencer, Iowa

FINANCIAL STATEMENT

CENTRAL WATER SYSTEM
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGE IN CASH BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2014

OPERATING RECEIPTS:

Water sales	\$ 403,575
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OPERATING DISBURSEMENTS:

Salaries - superintendent	54,652
Salaries - other	49,548
Chemicals	97,970
Repairs	11,720
Utilities	94,019
Payroll taxes and benefits	17,246
Employee insurance	35,413
General insurance	65,471
Lab supplies	4,036
Testing and lab fees	2,464
Vehicle expenses	1,255
Clothing allowance	1,176
Legal and professional	9,674
Office supplies and postage	1,172
Telephone	4,073
Board expense	1,450
Bond expense	550
Continuing education	370
Purchased water	340
TOTAL OPERATING DISBURSEMENTS	<u>452,599</u>

DEFICIENCY OF OPERATING RECEIPTS UNDER
OPERATING DISBURSEMENTS

(49,024)

NON-OPERATING RECEIPTS (DISBURSEMENTS):

Rental income	27,000
Miscellaneous income	3,553
Interest income	144
Interest expense	<u>(14,630)</u>
TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS) - NET	<u>16,067</u>

CHANGE IN CASH BALANCE

(32,957)

CASH BALANCE - BEGINNING OF YEAR.....

171,406

CASH BALANCE - END OF YEAR

\$ 138,449

CASH BASIS FUND BALANCE:

Unrestricted	<u>\$ 138,449</u>
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CENTRAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENT
YEAR ENDED DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Central Water System was organized by a Joint Public Improvement Agreement between the City of Arnolds Park and the City of Okoboji dated April 11, 1977. Central Water System, organized under the Code of Iowa, Chapter 28E, was designed to operate a water system to jointly serve the two municipalities. Iowa Lakes Regional Water was later added as a customer through a water purchase contract with Central Water System dated January 11, 1989. All facilities and land acquired or constructed in connection with the System are to be owned by the two municipal parties as tenants in common with undivided ownership interest, the common facilities to be referred to as "Central Water System".

Central Water System is a component unit of the City of Arnolds Park, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The System is operated by the parties through a joint Board of Directors consisting of one member from each city council, or such other individual as that council shall designate, and a third member appointed and approved by a majority vote of the city councils of the municipalities.

Reporting Entity

For financial reporting purposes, Central Water System has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The System has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the System are such that exclusion would cause the System's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria included appointing a voting majority of an organization's governing body, and (1) the ability of the System to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the System. Central Water System has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of Central Water System are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenditures made, and/or change in cash balance is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

CENTRAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENT - Continued
YEAR ENDED DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus and Basis of Accounting

Central Water System maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the System is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statement does not present the financial position and results of operations of the System in accordance with accounting principles generally accepted in the United States of America.

The System distinguishes operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with the System's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Compensated Absences

Central Water System has established a written policy for sick leave and vacation accrual which states that no sick leave or vacation pay will accumulate one year to the next. Therefore, there are no accrued compensated absences at December 31, 2014.

Use of Estimates

The preparation of the financial statement in conformity with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

Central Water System is exempt from federal and state income taxes.

Management's Review

Management has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

2. CASH AND INVESTMENTS

The System's deposits in banks at December 31, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The System is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

CENTRAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENT - Continued
YEAR ENDED DECEMBER 31, 2014

3. PENSION AND RETIREMENT BENEFITS

The System contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.95% of their annual salary, and the System is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The System's contributions to IPERS for the years ended December 31, 2014, 2013, and 2012 were \$9,272, \$8,917, and \$8,237, respectively, equal to the required contributions for each year.

457 Deferred Compensation Plan

The System offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457 to System employees. The plan permits the employees to defer a portion of current salary until future years. The System does not contribute to the plan. Plan funds are held in trust by a third party investor. The System provides neither administrative service to the plan nor investment advice for the plan.

4. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description - The District operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees. There are 2 active and no retired members in the plan. Retired participants must be age 55 or older at retirement. Benefits terminate upon attaining Medicare eligibility.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees. The cost of retiree coverage is offset by the retiree contributions.

Funding Policy - The contribution requirements of plan members are established and may be amended by the System. The System currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premium for the System and plan members is \$1,437 for family coverage. The same monthly premiums apply to retirees. For the year ended December 31, 2014, the System made no contributions to the retiree benefit plan.

CENTRAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENT - Continued
YEAR ENDED DECEMBER 31, 2014

5. RISK MANAGEMENT

The System is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 700 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300 percent of basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any yearend operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The System's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The System's annual contributions to the Pool for the year ended December 31, 2014 were \$29,987.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

CENTRAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENT - Continued
YEAR ENDED DECEMBER 31, 2014

5. RISK MANAGEMENT - Continued

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss, or series of claims or losses exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims or property losses exhausts the Pool's fund and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. As of December 31, 2014, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The System also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation. The System assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

6. MAJOR CUSTOMERS

During the years ended December 31, 2014, the System received 79% of its revenues from two entities as follows:

	<u>Amount</u>	<u>Percent</u>
City of Arnolds Park	\$196,965	45%
City of Okoboji	\$149,226	34%

7. LITIGATION

The System may become party to routine legal proceedings and litigation arising in the normal course of operations. These legal proceedings typically are not expected to have a material adverse impact on the System's financial condition.

CENTRAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENT - Continued
YEAR ENDED DECEMBER 31, 2014

8. LEASES

The System leases space on two water towers for cell phone antennae. Both leases are in the final 10-year option and expire in April 2025. Lease payments under the agreements totaled \$27,000 in 2014.

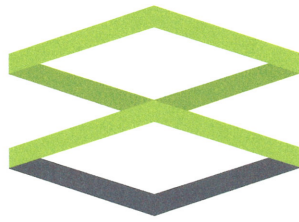
Future minimum/fixed rental payments required for each of the five years subsequent to December 31, 2014 are as follows:

December 31,

2015	\$ 30,000
2016	30,000
2017	30,000
2018	30,000
2019	30,000
Thereafter	<u>150,000</u>
TOTAL	<u>\$300,000</u>

9. PROSPECTIVE ACCOUNTING CHANGE

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pension - an amendment of GASB No. 27*. This statement will be implemented for the year ending December 31, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Central Water System
Okoboji, IA 51355

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statement of Central Water System as of and for the year ended December 31, 2014, and the related notes to the financial statement and have issued our report thereon dated August 17, 2015. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered Central Water System's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility a material misstatement of the System's financial statement will not be prevented, or

detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-14 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Water System's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Central Water System's operations for the year ended December 31, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of Central Water System. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Central Water System's Responses to Findings

The System's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The System's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of Central Water System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Central Water System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Central Water System during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Winter, Starn & Co., LLP

August 17, 2015
Spencer, Iowa

CENTRAL WATER SYSTEM
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

Part I: Findings Related to the Financial Statements

Internal Control Deficiencies:

I-A-14 Segregation of Duties - During our review of internal control, existing procedures were evaluated in order to determine whether incompatible duties, from a control standpoint, are performed by the same employee. We noted that one individual is primarily responsible for all recordkeeping and reconciling functions for the System.

Recommendation - We realize with a limited number of office employees, segregation of duties is difficult. However, the System should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances with continued administrative review by Directors.

Response - We continually review our operating procedures and strive to improve internal control and segregation of duties whenever possible. Administrative and Board review of transactions and financial information is an important part of the controls in place, and is relied upon to strengthen controls.

Conclusion - Response accepted.

Instances of Noncompliance:

No matters were noted.

CENTRAL WATER SYSTEM
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED DECEMBER 31, 2014

Part II: Other Findings Related to Statutory Reporting

- II-A-14 Questionable Expenses - We noted no expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-B-14 Travel Expense - No expenditures of money for travel expenses of spouses of System officials or employees were noted.
- II-C-14 Board Minutes - No transactions were found that we believe should have been approved in the System's minutes but were not.
- II-D-14 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.